AP MACROECONOMICS • HOLIDAY HOMEWORK 假期作业

5 Crowding out and economic growth – Part 2

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
crowding out	挤出效应			
Economic growth	经济增长			

Recall

In Part A you met inflation and unemployment. Now the long-run costs of government borrowing, and what drives growth:

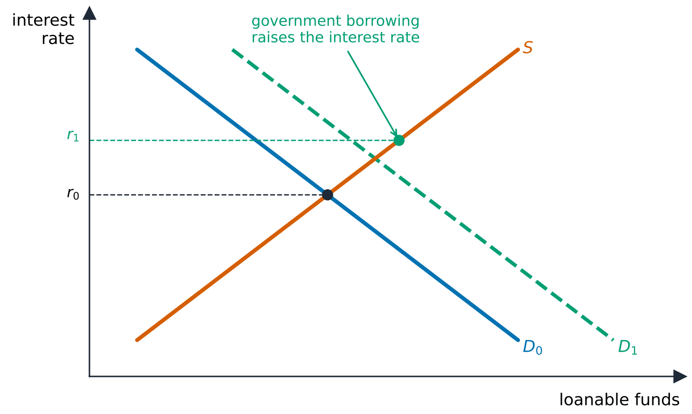
- When the government borrows heavily, it competes with businesses for funds.
- An economy grows when it can produce more over time.

Each idea has a worked example before the Practice.

New ideas

■ 1 Crowding out

When the government borrows a lot, it raises the demand for loans, pushing up the interest rate. Higher rates **reduce private investment** – this is **crowding out** 挤出效应.

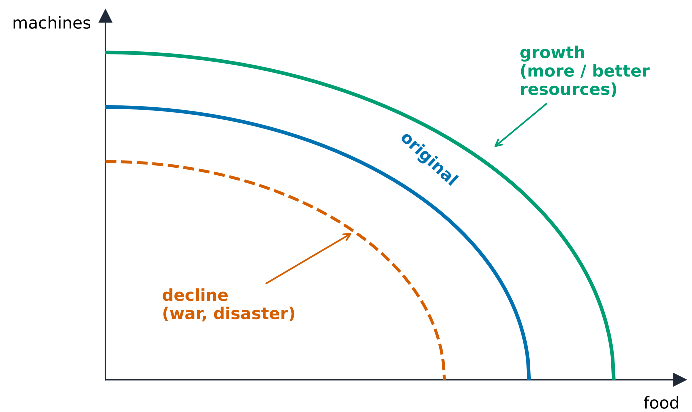


■ 2 Why crowding out matters

Because it reduces investment, crowding out partly cancels the boost from government spending, and less investment today means slower growth tomorrow.

■ 3 Economic growth

Economic growth 经济增长 is a sustained rise in real output per person – the true source of higher living standards. It shifts the production possibilities curve **outward**.



■ **4 What drives growth**

Growth comes from more and better resources: more **physical capital** (tools and machines), more **human capital** (education and skills), and better **technology**.

Watch out: crowding out is why deficit spending has a long-run cost – the higher interest rates it causes reduce the private investment that the economy needs to grow.

Practice

Try these in order. The methods are all above.

2.1 Explain what crowding out is. [2]

2.2 State why crowding out weakens the effect of government spending. [2]

2.3 State what economic growth does to the production possibilities curve. [1]

2.4 Name three things that drive long-run economic growth. [3]

2.5 Explain why heavy government borrowing can slow long-run growth. [2]